

Message Text

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PAGE 01 JAKART 09941 290949Z

14-L
ACTION EA-09

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EO 11652: GDS
TAGS: ENRG ID
SUBJECT: GOI-OIL COMPANY NEGOTIATIONS

REF: JAKARTA 9624

1. MEETINGS WITH PRODUCTION-SHARING CONTRACTORS CONTINUE AT FRANTIC PACE. CHECK OF COMPANIES INDICATES UNION IS NOW IN BASIC AGREEMENT WITH GOI AND EXPECTS TO SIGN PERHAPS TOMORROW, JULY 30. IIAPCO HAS HELD FINAL MEETING JULY 28 WITH HARYONO AND IS ALSO CLOSE TO AGREEMENT. ARCO REPORTS AGREEMENT ON SOME POINTS BUT IS NEGOTIATIONS WITH GOI IN DAILY MEETINGS ON FINER POINTS RELATING TO DEPRECIA- TION SCHEDULE. THESE COMPANIES "ARE NOT DANCING IN THE STREET" AS ONE REPRESENTATIVE PUT IT, BUT THEY BELIEVE IT IS IN THEIR BEST LONG-RANGE INTERESTS TO REACH AGREEMENT WITH GOI. PETROMER TREND, WHICH WAS CLASSIFIED AS GROUP TWO COMPANY ANDHENCE SUBJECT TO 14-YEAR DEPRECIATION SCHEME, HAS BEEN ARGUING FOR RECLASSIFICATION TWO NON-US COMPANIES, TOTAL AND JAPEX, ARE REPORTEDLY TAKING TOUGH STANCE IN NEGOTIATIONS. JAPEX PRESIDENT ARRIVED IN JAKARTA EVENING OF JULY 28; JAPANESE EMBASSY REPORTS JAPEX PREPARED TO TAKE "STRONG POSITION" IN TALKS.

2. SMALLER PRODUCERS HAVE ALSO BEEN GIVEN GOI'S FINAL TERMS OF REFERENCE AND ASKED TO SUBMIT DATA ON RESERVES

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PAGE 02 JAKART 09941 290949Z

AND EXPENDITURES. IRONICALLY, AT LEAST TWO COMPANIES

WOULD ACTUALLY BENEFIT FROM GOVERNMENT'S REVISED
GUIDELINES. BOTH HUFFCO (ROY M. HUFFINGTON CO.) AND
ASSOCIATED AUSTRALIAN RESOURCES REPORT THAT ALLOWANCE
FOR "COST RECOVERY" WHICH AVERAGES ABOUT \$5.00/BARREL
UNDER PRESENT SYSTEM WOULD ZOOM TO OVER \$10/BARREL UNDER
NEW PRESENT SYSTEM DURING FIRST TWO YEARS OF SCHEDULE.
THIS IS RESULT OF GOI'S GUIDELINES WHICH ALLOWS UN-
LIMITED EXPENSING IN YEAR OF EXPENDITURE FOR NON-CAPITAL
COSTS. GOVERNMENT WAS AWARE THAT THIS SITUATION
COULD DEVELOP WHEN COST RECOVERY SYSTEM WAS BEING REVISED;
ACCORDING TO PRICE WATERHOUSE ADVISORS, SENIOR OFFICIALS
IN BAPPENAS FELT THIS WAS PRIVE GOI WOULD HAVE TO PAY IN
ORDER TO: A) ADOPT "US SYSTEM" OF GENERALLT ACCEPTED
ACCOUNTING PRINCIPLES AND B) HAVE CONSISTENT APPROACH
WITH ALL COMPANIES.

3. POSSIBLE SCENARIO AT THIS POINT IS THAT GOI WILL
HAVE AGREEMENT WITH SOME, BUT NOT ALL, COMPANIES BY
JULY 31 THUS CAUSING NEGOTIATIONS TO CONTINUE OVER INTO
NEXT WEEK.

NEWSOM

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